

Walden Green Montessori

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2008

Walden Green Montessori

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This section of the Walden Green Montessori's annual financial report presents our discussion and analysis of the School's financial performance during the year ended June 30, 2008. Please read it in conjunction with the School's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Walden Green Montessori financially as a whole. The School-wide financial statements provide information about the activities of the whole School, presenting both an aggregate view of the School's finances and a longer-term view of those finances. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School's operations in more detail than the School-wide financial statements. The basic financial statements are comprised of the following elements:

Management's Discussion and Analysis (MD&A)

Basic Financial Statements

- School-wide Financial Statements

- Fund Financial Statements

- Notes to Financial Statements

Required Supplementary Information

- Budgetary Information for the General Fund

Reporting the School as a Whole—School-wide Financial Statements

One of the most important questions asked about the School is, as a whole, what is the School's Statement of Activities, which appears second in the School's financial statements. The Statement of Activities reports information on the School as a whole and its activities in a way that helps answer this question. We prepare this statement using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Activities and the Statement of Net Assets report the School's net assets—the difference between assets and liabilities—as one way to measure the School's financial health or financial position. Over time, increases or decreases in the School's net assets—as reported in the Statement of Activities—are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School's operating results. However, the School's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School, which encompass all of the School's services, including instruction and support services. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

Reporting the School's Most Significant Funds—Fund Financial Statements

The School's fund financial statements provide detailed information about the most significant funds—not the School as a whole. Walden Green used two funds in the current year – the General Fund and the Debt Service Fund. The funds use the following accounting approach:

Governmental funds—All of the School's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation.

The School as a Whole

Recall that the Statement of Net Assets provides the perspective of the School as a whole. The following table provides a summary of the School's net assets as of June 30, 2008 and 2007.

	2008 Governmental Activities	2007 Governmental Activities
<u>Net Assets</u>		
Assets		
Current Assets	\$ 273,222	\$ 291,202
Capital Assets	3,681,408	3,763,031
Other Assets	722,825	705,269
Total Assets	<u>4,677,455</u>	<u>4,759,502</u>
Liabilities		
Current Liabilities	397,085	267,699
Long-term Liabilities	4,192,400	4,204,556
Total Liabilities	<u>4,589,485</u>	<u>4,472,255</u>
Net Assets		
Invested in Capital Assets - Net of Related Debt	93,772	179,511
Restricted for debt services	58,467	24,639
Unrestricted	(64,269)	83,097
Total Net Assets	<u>\$ 87,970</u>	<u>\$ 287,247</u>

The above analysis focuses on net assets. The total assets decreased by \$82,047. Capital assets decreased due to the current year's depreciation exceeding current year additions. Restricted assets in the amount of \$58,467 are reserved for debt service payments. The net assets are comprised of three components. Invested in capital assets, net of related debt represent the Schools net assets invested in buildings and equipment less the related debt. The remaining amount of net assets of negative \$64,269 was unrestricted.

The negative \$64,269 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net asset balance is used to provide working capital and cash flow requirements as well as providing for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School as a whole are reported in the Statement of Activities, which shows the changes in net assets for fiscal year 2008.

Statement of Activities

	2008 Governmental Activities	2007 Governmental Activities
<i>Functions/Programs</i>		
Program Revenue		
Charges for Services	\$ 18,301	\$ 21,883
Operating Grants	50,228	48,015
Capital Contributions	9,000	139,847
General Revenues		
Grants and Contributions Not Restricted to Specific Programs	1,403,293	1,125,297
Unrestricted Investment Earnings	17,997	158,906
Miscellaneous	-	58,420
Total Revenues	1,498,819	1,552,368
Expenses		
Instruction	923,754	759,737
Support Services	486,425	407,594
Interest of Long-term Debt	277,814	285,074
Unallocated Depreciation and Amortization	10,103	54,686
Total Governmental Activities	1,698,096	1,507,091
Change in Net Assets	(199,277)	45,277
Net Assets - Beginning of Year	287,247	241,970
Net Assets - End of Year	\$ 87,970	\$ 287,247

Change in Net Assets

The School experienced a decrease in net assets of \$199,277. Instruction expenses increased for salaries, benefits and training. Because of increased enrollment, elementary classrooms were added and new staff were hired. These increases were partially offset by an increase in state aid income.

As discussed above, the net cost shows the financial burden that was placed on the School by each of these functions. Since unrestricted state aid constitutes the vast majority of district operating revenue sources, the Board of Directors and Administration must annually evaluate the needs of the School and balance those needs with state-prescribed available unrestricted resources.

The School's Funds

As we noted earlier, the School uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School is being held accountable for the resources taxpayers and others provide to it and may provide more insight into the School's overall financial health.

In the General Fund, our principal operating fund, the fund balance decreased \$153,366 during the year ended and ended the year with a deficit of \$115,769. The primary reasons for the decrease are as follows:

- Increases in staff salaries and benefits for additional instructional staff hired
- Increases in staff salaries and benefits to additional administrative staff
- Unexpected increases in special education services
- Special education litigation and related costs

The Debt Service fund was created in the current year to set aside monies for future interest and principle payments.

General Fund Budgetary Highlights

Over the course of the year, the School revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. (A schedule showing the School's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information of these financial statements).

There were revisions made to the 2007-2008 General Fund original budget. The general administration budget was increased by \$27,000 due to an increase in cost related to the school adding administrative staff. Basic instructional costs were increased by \$34,000 for addition staff needed for special education instruction. Other categories were adjusted to match anticipated expenditures as the year progressed.

The budget to actual expenditure variations amounts are primarily the result of additional expenditures that were mandated during the course of the year including the addition of special education staff, litigation expenditures and the additional of administrative staff.

Capital Asset and Debt Administration**Capital Assets**

At June 30, 2008, the School had \$3,681,408 (after accumulated depreciation) invested in a broad range of capital assets, including land, buildings, furniture and equipment, and vehicles. This amount represents a net decrease (including additions, deductions, and depreciation) of \$81,623 from last year.

	2008	2007
Land	\$ 319,638	\$ 319,638
Building and improvements	3,087,975	3,138,691
Furniture and equipment	260,539	304,702
Vehicles	13,256	-
	<u>\$ 3,681,408</u>	<u>\$ 3,763,031</u>

We present more detailed information about our capital assets in the notes to the financial statements.

Long-term Debt

At June 30, 2008, the School had \$4,143,331 in bonds relating to building construction. The School also has acquired equipment through a capital lease. The obligation related to the equipment has been recorded as long-term debt approximating \$49,000 as of June 30, 2008. During the fiscal year the school made all required debt payments.

Economic Factors and Next Year's Budget

Our appointed officials and administration considered many factors when setting the School's 2009 fiscal year budget. One of the most important factors affecting the budget is our student count. The fiscal year 2009 budget anticipates an increase in enrollment of approximately 20 students. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2009 fiscal year is 25 percent and 75 percent of the February 2008 and September 2008 student counts, respectively. The original 2009 budget was adopted in June 2008 and anticipated an increase in fund balance of \$60,000.

Approximately 97 percent of total General Fund revenue comes from the state foundation grant and categorical payments. As a result, direct funding is heavily dependent on the state's ability to fund local school operations. Based on early enrollment data at the start of the 2009 school year, we anticipate that the fall student count will be near the estimates used in creating the fiscal 2009 budget. Once the final student count and related per pupil funding is validated, state law requires the School to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School's revenue is heavily dependent on state funding and the health of the state's School Aid Fund, the actual revenue received depends on the state's ability to collect revenues to fund its appropriation to Schools. The state periodically holds a revenue-estimating conference to estimate revenues.

Contacting the School Financial Management

The financial report is designed to provide a general overview of the School's finances for all those interested in the School's finances. If you have any questions about this report or need additional information, contact Walden Green Montessori, 17339 Roosevelt Road, Spring Lake, Michigan 49456.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

December 2, 2008

Board of Directors
Walden Green Montessori
Spring Lake, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Walden Green Montessori (the School) as of and for the year ended June 30, 2008, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Walden Green Montessori's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Walden Green Montessori, as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2008, on our consideration of Walden Green Montessori's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i – vi and page 22, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Walden Green Montessori
STATEMENT OF NET ASSETS
June 30, 2008

	Governmental activities
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 15,000
Receivables	3,475
Due from other governmental units	<u>254,747</u>
Total current assets	273,222
NONCURRENT ASSETS	
Restricted assets	441,608
Capital assets, net	
Nondepreciable	319,638
Depreciable	3,361,770
Bond issuance costs, net	<u>281,217</u>
Total noncurrent assets	<u>4,404,233</u>
Total assets	4,677,455
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Short-term debt	169,850
Accounts payable and accrued liabilities	193,466
Due to other governmental units	33,769
Bonds and other obligations, due within one year	<u>56,133</u>
Total current liabilities	453,218
NONCURRENT LIABILITIES	
Bonds and other obligations, less amounts due within one year	<u>4,136,267</u>
Total liabilities	<u>4,589,485</u>
NET ASSETS	
Invested in capital assets, net of related debt	93,772
Restricted for debt services	58,467
Unrestricted	<u>(64,269)</u>
Total net assets	<u>\$ 87,970</u>

The accompanying notes are an integral part of this statement.

Walden Green Montessori
STATEMENT OF ACTIVITIES
For the year ended June 30, 2008

<i>Functions/Programs</i>	<u>Expenses</u>	<u>Program Revenue</u>			Net (Expense)
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>	Revenue and Changes in Net Assets
Governmental activities					<u>Governmental activities</u>
Instruction	\$ 923,754	\$ 18,301	\$ 50,228	\$ 9,000	\$ (846,225)
Support services	486,425	-	-	-	(486,425)
Interest on long-term debt	277,814	-	-	-	(277,814)
Unallocated amortization	10,103	-	-	-	(10,103)
Total governmental activities	<u>\$ 1,698,096</u>	<u>\$ 18,301</u>	<u>\$ 50,228</u>	<u>\$ 9,000</u>	<u>(1,620,567)</u>
General revenues					
Grants and contributions not restricted to specific programs					1,403,293
Unrestricted investment earnings					<u>17,997</u>
Total general revenues					<u>1,421,290</u>
Change in net assets					(199,277)
Net assets at July 1, 2007					<u>287,247</u>
Net assets at June 30, 2008					<u>\$ 87,970</u>

The accompanying notes are an integral part of this statement.

Walden Green Montessori
BALANCE SHEET
Governmental Funds
June 30, 2008

	General Fund	Debt Service Fund	Total governmental funds
ASSETS			
Cash and cash equivalents	\$ 15,000	\$ -	\$ 15,000
Receivables	3,475	-	3,475
Due from other governmental units	254,747	-	254,747
Due from other funds	-	51,500	51,500
Restricted assets	-	441,608	441,608
Total assets	<u>\$ 273,222</u>	<u>\$ 493,108</u>	<u>\$ 766,330</u>
LIABILITIES AND FUND BALANCES (DEFICIT)			
Liabilities			
Short-term debt	\$ 169,850	\$ -	\$ 169,850
Accounts payable	86,659	-	86,659
Accrued liabilities	47,213	-	47,213
Due to other governmental units	33,769	-	33,769
Due to other funds	51,500	-	51,500
Total liabilities	388,991	-	388,991
Fund balances (deficit)			
Reserved for debt service	-	493,108	493,108
Unreserved	(115,769)	-	(115,769)
Total fund balances (deficit)	<u>(115,769)</u>	<u>493,108</u>	<u>377,339</u>
Total liabilities and fund balances	<u>\$ 273,222</u>	<u>\$ 493,108</u>	<u>\$ 766,330</u>

The accompanying notes are an integral part of this statement.

Walden Green Montessori
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

June 30, 2008

Total fund balance—governmental funds	\$	377,339
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not current financial resources
and are not reported in the governmental funds.

Cost of capital assets	\$ 3,850,139	
Accumulated depreciation	<u>(168,731)</u>	3,681,408

Bond issuance costs are not capitalized and amortized in the
governmental funds.

Bond issuance costs	303,108	
Accumulated amortization	<u>(21,891)</u>	281,217

Accrued interest in governmental activities is not reported in the governmental funds.		(59,594)
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Long-term liabilities in governmental activities are not due and payable in the current
period and are not reported in the governmental funds.

Bonds and other obligations		<u>(4,192,400)</u>
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Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>87,970</u></u>
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The accompanying notes are an integral part of this statement.

Walden Green Montessori
**STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES (DEFICIT)**

Governmental Funds
 For the year ended June 30, 2008

	General Fund	Debt Service Fund	Total governmental funds
REVENUES			
Local sources			
Program fees	\$ 18,301	\$ -	\$ 18,301
Investment earnings	382	17,616	17,998
Total local sources	18,683	17,616	36,299
State sources	1,403,293	-	1,403,293
Federal sources	27,420	-	27,420
Total revenues	1,449,396	17,616	1,467,012
EXPENDITURES			
Instruction	828,263	-	828,263
Support services	505,518	-	505,518
Debt service			
Principal	20,300	-	20,300
Interest and other charges	2,811	246,559	249,370
Capital projects	6,076	-	6,076
Total expenditures	1,362,968	246,559	1,609,527
Excess (deficiency) of revenues over (under) expenditures	86,428	(228,943)	(142,515)
OTHER FINANCING SOURCES (USES)			
Transfers from other governmental units and other transactions	22,808	-	22,808
Transfers in	20,648	283,250	303,898
Transfers out	(283,250)	(20,648)	(303,898)
Total other financing sources (uses)	(239,794)	262,602	22,808
Net change in fund balances	(153,366)	33,659	(119,707)
Fund balances at July 1, 2007	37,597	459,449	497,046
Fund balances (deficit) at June 30, 2008	\$ (115,769)	\$ 493,108	\$ 377,339

The accompanying notes are an integral part of this statement.

Walden Green Montessori
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICIT) TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2008

Net change in fund balances—total governmental funds	\$	(119,707)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$	(129,911)	
Capital outlay		<u>38,185</u>	(91,726)

Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

		<u>12,156</u>
Change in net assets of governmental activities	\$	<u><u>(199,277)</u></u>

The accompanying notes are an integral part of this statement.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Walden Green Montessori (School) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

Reporting Entity

The School is governed by an appointed five-member Board of Directors (Board), which has responsibility and control over all activities related to public school education within the School. The School receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

School-wide and Fund Financial Statements

School-wide Financial Statements – The primary focus of school-wide financial statements is on the sustainability of the School as an entity and the change in the School's net assets resulting from the current year's activities. The school-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these statements. The school-wide financial statements categorize primary activities as either governmental or business type. All of the School's activities are classified as governmental activities.

In the school-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The school-wide Statement of Activities reports both the gross and net cost of each of the School's functions. The functions are also supported by general revenues (certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School does not allocate indirect costs.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

School-wide and Fund Financial Statements—Continued

Fund financial statements – Fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School functions typically are financed. The acquisition, use and balances of the School's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School reports the following major governmental funds:

- The *General Fund* is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.
- The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The school-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation—Continued

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to schools based on information supplied by the schools. For the year ended June 30, 2008, the Foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30, 2008 is reported as due from other governmental units.

The School also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Other Accounting Policies

Deposit and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School intends to hold the investment until maturity.

State statutes authorize the School to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School's deposits and investments are in accordance with statutory authority.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported at “due to/from other funds”. The School had no advances between funds.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include funds held for future debt service requirements.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Building and improvements	10-50 years
Furniture and other equipment	3-10 years
Vehicles	10 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Deferred Revenue

Deferred revenue arises when assets are recorded before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Long-term Obligations

In the school-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets In School-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fund Equity In Fund Financial Statements

The School reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the General Fund. All annual budgets lapse at year end.

The School follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The President submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain constituent comments.
3. Prior to July 1, the budget is legally adopted by Board of Directors resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. Formal budgetary integration is employed as a management control device during the year.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The School does not consider these amendments to be significant.

Excess of Expenditures Over Appropriations

For the year ended June 30, 2008, expenditures exceeded appropriations for:

	Amended budget	Actual
General Fund		
Instruction		
Basic instruction	\$ 743,000	\$ 765,151
Support services		
General administration	202,000	250,074
Operations and maintenance	89,000	146,577
Debt services	4,000	23,111
Capital projects	-	6,076
Outgoing transfers and other transactions	250,000	325,427

Fund Deficit

As of June 30, 2008, the General Fund had an unreserved fund deficit of \$115,769. The deficit will be eliminated through future operations.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2008, the School had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Standard and Poor's	Percent
Money market mutual fund	\$ 141,200	30	Aaa	32 %
Certificates of Deposit	<u>300,408</u>	<u>50</u>	not rated	<u>68</u>
Total fair value	<u>\$ 441,608</u>			<u>100 %</u>
Portfolio weighted average maturity		<u>44</u>		

Interest rate risk. The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School has no investment policy that would further limit its investment choices.

Concentration of credit risk. The School does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. As of June 30, 2008 the School had certificate of deposits issued by GMAC Bank, Sallie Mae Bank, and Washington Mutual Bank. Each of these certificates of deposit has a market value of approximately \$100,000, respectively representing 23 percent of the School's total investments.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School's deposits may not be returned to it. As of June 30, 2008, the School's bank balance of \$18,016 was not exposed to custodial credit risk because it was fully insured.

Custodial credit risk - investments. The School does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The School is not authorized to invest in investments which have this type of risk.

Restricted Assets

Restrictions are placed on assets by bond ordinance and School Board of Directors action. At June 30, 2008, restricted cash in the General Fund are restricted as follows:

Governmental Activities

General Fund

Debt Service Reserve Fund	\$ 323,547
Bond Revenue Fund	<u>118,061</u>
	<u>\$ 441,608</u>

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 319,638	\$ -	\$ -	\$ 319,638
Total capital assets, not being depreciated	319,638	-	-	319,638
Capital assets, being depreciated:				
Buildings and improvements	3,163,210	13,335	-	3,176,545
Furniture and equipment	329,106	11,369	-	340,475
Vehicles	-	13,481	-	13,481
Total capital assets, being depreciated	3,492,316	38,185	-	3,530,501
Less accumulated depreciation:				
Buildings and improvements	24,519	64,051		88,570
Furniture and equipment	24,404	55,532		79,936
Vehicles	-	225	-	225
Total accumulated depreciation	48,923	119,808	-	168,731
Total capital assets, being depreciated, net	3,443,393	(81,623)	-	3,361,770
Capital assets, net	<u>\$ 3,763,031</u>	<u>\$ (81,623)</u>	<u>\$ -</u>	<u>\$ 3,681,408</u>

Depreciation

Depreciation expense has been charged to the functions as follows:

Governmental Activities	
Instruction	\$ 107,827
Support Services	11,981
	<u>\$ 119,808</u>

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Bond issuance costs	\$ 303,108	\$ -	\$ -	\$ 303,108
Less accumulated amortization	11,788	10,103	-	21,891
Bond issuance costs, net	<u>\$ 291,320</u>	<u>\$ (10,103)</u>	<u>\$ -</u>	<u>\$ 281,217</u>

Amortization

Amortization expense has been charged as unallocated amortization.

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2008 is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Debt Service Fund	General Fund	\$ <u>51,500</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

The General Fund transferred \$283,250 to the Debt Service Fund to set aside monies for future debt payments. The Debt Service Fund was able to transferred \$20,648 to the General Fund due to interest earned on temporary investments

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE G—SHORT-TERM DEBT

To Bank

The Organization has an unsecured line of credit with borrowings limited to \$150,000 and interest payable monthly at the prime rate. The balance outstanding was \$149,850 as of June 30, 2008.

State Aid Anticipation Note

The School issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School. The short-term debt activity for the year ended June 30, 2008 follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008
State aid anticipation note 2007/2008 4.79% due August 2008	\$ -	\$ 200,000	\$ 180,000	\$ 20,000

NOTE H—LONG-TERM OBLIGATIONS

The School issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds and notes are direct obligations and pledge the full faith and credit of the School.

Summary of Long-term Obligations

The following is a summary of long-term obligations activity for the School for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due within one year
Governmental activities:					
Bonds	\$ 4,370,000	\$ -	\$ -	\$ 4,370,000	\$ 35,000
Less issuance discount	(234,813)	-	(8,144)	(226,669)	(8,144)
Capital leases	69,369	-	20,300	49,069	21,133
	<u>\$ 4,204,556</u>	<u>\$ -</u>	<u>\$ 12,156</u>	<u>\$ 4,192,400</u>	<u>\$ 47,989</u>

General obligation bonds consist of the following:

2006 Limited Obligation Revenue Bond

payable in annual installments ranging from \$35,000 to
\$305,000 due October 2008 to October 2037; plus
interest ranging from 5% to 5.625% payable semi-
annually

\$ 4,370,000

Less issuance discount

(226,669)
4,143,331

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE H—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

Other obligations

Capital lease obligation payable in annual installments of \$18,995 including interest of 3.83%; final payment due December 2009	\$ 35,878
Capital lease obligation payable in monthly installments of \$343 including interest of 5%; final payment due December 2011	<u>13,191</u>
Total other obligations	<u>49,069</u>
	<u>\$ 4,192,400</u>

The annual requirements of principal and interest to amortize bonded debt and capital lease obligations outstanding as of June 30, 2008 are as follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 56,133	\$ 240,353	\$ 296,486
2010	82,000	237,736	319,736
2011	73,908	233,833	307,741
2012	77,028	230,155	307,183
2013	80,000	226,375	306,375
2014-2018	475,000	1,066,875	1,541,875
2019-2023	610,000	931,175	1,541,175
2024-2028	805,000	746,400	1,551,400
2029-2033	1,060,000	494,719	1,554,719
2034-2037	1,100,000	151,172	1,251,172
	<u>\$ 4,419,069</u>	<u>\$ 4,558,793</u>	<u>\$ 8,977,862</u>

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE I—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

Plan description – The School contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS, for the School's single employee. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing Michigan 48909
1-800-381-5111

Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 and December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2008 was 16.72 percent of payroll. The contribution requirements of plan members and the School are established and may be amended by the MPERS Board of Trustees. The School contributions to MPERS for the year ended June 30, 2008, 2007, and 2006 were approximately \$11,800, \$13,700, and \$13,000, respectively, and were equal to the required contribution for those years.

The School is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other post-employment benefits – Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE J—COMMITMENTS AND CONTINGENCIES

Commitments

- **Operating leases** – The School conducted a portion of its operations in facilities under a lease agreement which expired June 30, 2009. The lease required monthly rentals of \$1,050 and payment of certain occupancy costs by the lessee. Rent expense for the year ended June 30, 2008 was \$8,150.

Contingencies

- **Grant Programs** – The School participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

NOTE K—OTHER INFORMATION

Economic Dependence – The School does not have the ability to levy property taxes, and approximately 97 percent of General Fund revenues came from the State of Michigan.

Risk Management – The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2008 or any of the prior three years.

Leased Employees

- **Management Services Agreement** – The School leases its employees, with the exception of one employee, from an employee leasing company (Company) and is not required to have these School employees covered by MPSERS. Expenditures for employee costs such as salaries and wages, payroll taxes, and benefits under the management services agreements have been recorded and reported in conformance with the State of Michigan's standard chart of accounts.
- **Defined Contribution Plan** – The School maintains a defined contribution plan covering substantially all of the leased employees. In a defined contribution plan, benefits depend solely on amounts contributed to the Plan plus investment earnings. Contributions and costs are determined as 8 percent of each covered employee's salary. For the year ended June 30, 2008, the contributions totaled approximately \$27,100.

NOTE L—SUBSEQUENT EVENT

State Aid Anticipation Note

In July 2008, the School received the proceeds of a \$300,000 State of Michigan (State) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity in July 2009 and bears interest at the rate of 3.10 percent per annum. The School pledged for payment of the note payable, the amount of State school aid to be received plus the full faith, credit, and resources of the School.

REQUIRED SUPPLEMENTARY INFORMATION

Walden Green Montessori
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE

General Fund
For the year ended June 30, 2008

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 24,000	\$ 36,000	\$ 18,301	\$ (17,699)
State sources	1,400,000	1,400,000	1,403,293	3,293
Federal sources	-	-	27,420	27,420
Incoming transfers and other transactions	60,000	60,000	43,838	(16,162)
Total revenues	1,484,000	1,496,000	1,492,852	(3,148)
EXPENDITURES				
Instruction				
Basic instruction	709,000	743,000	765,151	(22,151)
Added needs	60,000	72,000	63,112	8,888
Support services				
General administration	175,000	202,000	250,074	(48,074)
Business	111,000	111,000	108,867	2,133
Operations and maintenance	109,000	89,000	146,577	(57,577)
Debt service	-	4,000	23,111	(19,111)
Capital projects	-	-	6,076	(6,076)
Outgoing transfers and other transactions	246,000	246,000	283,250	(37,250)
Total expenditures	1,410,000	1,467,000	1,646,218	(179,218)
Excess (deficiency) of revenues over (under) expenditures	\$ 74,000	\$ 29,000	(153,366)	\$ (182,366)
Fund balance at July 1, 2007			37,597	
Fund deficit June 30, 2008			\$ (115,769)	

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

December 2, 2008

Board of Directors
Walden Green Montessori
Spring Lake, Michigan

In planning and performing our audit of the governmental activities, each major fund and the aggregate remaining fund information of Walden Green Montessori as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Walden Green Montessori's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness Walden Green Montessori's internal control. Accordingly, we do not express an opinion on the effectiveness of Walden Green Montessori's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the attached deficiencies to be significant deficiencies in internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe the attached deficiencies, identified as material weaknesses, constitute material weaknesses.

This communication is intended solely for the information and use of the Board of Directors, management, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



MATERIAL WEAKNESS

Payroll

Recommendation 1: Documentation supporting all hourly rate and salary changes should be prepared and maintained in employee personnel files.

During our testing of payroll transactions, we noted salaried staff's annual compensation was not documented in each individual's contract.

The documentation of pay rates in personnel files will help ensure that each employee is compensated correctly and that the appropriate documents are readily available to support payroll transactions.

SIGNIFICANT DEFICIENCIES

General

Recommendation 2: General ledger account balances should be regularly analyzed for their accuracy in relation to supporting documentation.

During our year end substantive testing, we noted that some account balances were not reconciled to supporting schedules or analyzed for unusual balances during the year. Since some of the adjustments were individually significant to the affected accounts, the adjustments significantly affected balances previously reported on internally-prepared interim financial statements.

The timely review and analysis of all general ledger account balances throughout the year and the reconciliation of significant account balances to supporting schedules would improve the accuracy of interim financial statements.

Recommendation 3: Financial statement budget to actual comparisons should be prepared monthly.

During our audit, we noted that financial statement budget to actual comparisons are not prepared for management and the Board of Directors on a regular basis, causing significant budget variances for the year ended June 30, 2008.

The preparation of budget to actual comparisons would assist Board of Directors and management in the evaluation of the results of operations and reduce the possibility of significant budget variances occurring.

Recommendation 4: A three-year operational financial projection should be prepared.

Presently the Board of Directors annually adopts a one-year financial budget prior to the commencement of the fiscal year. However, operational financial projections are not prepared for the fiscal periods beyond the current fiscal year.

The preparation of a three-year operational financial projection would enable the Board of Directors and the School's administration to identify problems caused by anticipated revenues and expenditures for a longer period and, thereby, provide School officials greater lead time to develop and execute plans to alleviate the problems.

SIGNIFICANT DEFICIENCIES—CONTINUED

General—Continued

Recommendation 5: A master file should be created with appropriate supporting details for all journal entries entered into the computer.

Journal entries are presently being made in instances where there is not supporting detail retained to substantiate the entries. This lack of support leaves a poor audit trail and provides for difficult subsequent reference as to the nature of the journal entries.

The maintenance of a formal record of all journal entries made and the details supporting those entries will facilitate a review of journal entries upon request.

Recommendation 6: Journal entries should be reviewed by appropriate personnel.

During our audit of journal entries in connection with our year end substantive tests, we noted that journal entries are being posted to the general ledger without review and approval by an appropriate official.

We recommend implementing procedures that would allow for proper review of all journal entries. These procedures should include documentation of the review on the supporting documentation for the journal entry.

Recommendation 7: The internal controls surrounding the preparation of formal year end financial statements should be improved.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year end financial statements.

The School should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles.

Cash

Recommendation 8: Segregation of duties within the cash receipts function should be improved.

During our review of procedures and internal controls surrounding the accounts receivable function, we noted that one individual is responsible for entering cash receipts into the general ledger, preparing the deposit slips, and performing monthly bank reconciliations.

The School should establish procedures for receipting of cash that would segregate the following procedures: (1) preparation of the bank deposit slip, (2) recording of the transaction in QuickBooks, (3) matching of the deposit slip and the accounting records, and (4) immediate depositing in the bank.

SIGNIFICANT DEFICIENCIES—CONTINUED

Cash—Continued

Recommendation 9: The addition of a new employee provides an opportunity to further segregate duties related to the disbursements cycle.

During our review of procedures and internal controls surrounding the accounts payable function, we noted the following: One individual maintains the responsibilities of receiving approved vendor invoices, posting such invoices to the accounts payable ledger, preparing cash disbursements, posting such cash disbursements to the general ledger, and preparing the general bank account reconciliation.

With four people, including the independent contractor, the following three duties should be segregated: (1) the opening of mail and entering of vendor invoices into the QuickBooks accounts payable module, (2) the printing of checks, (3) the approval of bills to be paid (should be done before the printing of checks), and (4) the signing of checks. After the checks are signed, they should not be returned to the individual printing the checks for mailing.

Establishment of the above procedures will help reduce the possibility of errors or the misappropriation of funds going undetected.

Accounts Payable

Recommendation 10: Accounts payable vouchers should have proper supporting documentation.

During our testing, we noted instances where the copy of the voucher retained by the School in the paid invoice files did not have proper supporting documents attached.

Having proper supporting documentation would reduce the possibility of errors or the misappropriations of funds going undetected.

Recommendation 11: Accounts payable paid invoices should be filed by vendor.

Accounts payable paid invoices are currently not being filed in file cabinets.

The filing of paid invoices by vendor would enable appropriate individuals to readily access supporting documentation for all disbursements made to a vendor during a given period without performing a detailed search of all accounts payable.

Payroll

Recommendation 12: Employee time sheets should be reviewed and approved prior to payroll processing.

During our testing of payroll transactions, we noted that time sheets are not regularly reviewed and approved by management.

Improvement of the process of reviewing payroll time sheets would further ensure the proper payment of hourly employees.

SIGNIFICANT DEFICIENCIES—CONTINUED

Payroll—Continued

Recommendation 13: A compensated absence policy should be formalized and approved by the Board of Directors.

Presently, the School does not have a formal compensated absence policy and does not maintain written documentation of unused compensated absences.

The development of a formal compensated absence policy would clearly establish guidelines for vacations, sick leave, and other compensated absences. The maintenance of records for such absences would ensure appropriate payments for compensated absences.

Recommendation 14: The School should remit the required pension payments to MPSERS on a timely basis.

During our testing, we noted that the School did not timely remit its required pension payments during the year ended June 30, 2008.

The timely remittance of pension payments would help ensure compliance with the pension plan established for the benefit of the School's employees.

Recommendation 15: Payroll taxes should be remitted to authorities on a timely basis.

During our testing, we noted certain remittances of payroll taxes were delinquent.

The timely remittance of payroll taxes would increase the accuracy of interim financial statements and help ensure that penalty and interest are not charged on such items.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

December 2, 2008

Board of Directors
Mr. Thomas A. Hicks
Walden Green Montessori
Spring Lake, Michigan

We have audited the financial statements of Walden Green Montessori as of and for the year ended June 30, 2008 and have issued our report thereon dated December 2, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Walden Green Montessori's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Walden Green Montessori's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Walden Green Montessori's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses, as Findings 1 - 11, to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 1 to be a material weakness.

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Compliance

As part of obtaining reasonable assurance about whether Walden Green Montessori's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Walden Green Montessori's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Walden Green Montessori's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

Walden Green Montessori
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2008

COMPLIANCE

NONE

SIGNIFICANT DEFICIENCIES

Fiscal 2008 Finding No. 1: MATERIAL WEAKNESS – Documentation of Pay Rates in Personnel Files

Criteria: Hourly/salary pay rates and changes should be documented in personnel files.

Condition: We noted salaried staff's annual compensation was not documented in each individual's contract.

Cause: The School did not comply with its unwritten policy to document salary amounts in contracts.

Effect: Documentation supporting salary rates was not readily available on request.

Recommendation: Documentation supporting all hourly rate and salary changes should be prepared and maintained in employee personnel files.

School Response: The School agrees with this finding and has implemented this recommendation for the fiscal year ending June 30, 2009.

Fiscal 2007 Finding No. 2: Procedures for Reconciliation of General Ledger Balances with Supporting Documentation

Criteria: General ledger account balances should be reconciled with supporting balances on a regular basis.

Condition: During our year end substantive tests, we noted that some significant general ledger account balances were not reconciled to supporting schedules or other supporting documentation during the year.

Cause: Apparently, management and staff had limited time available to perform such procedures.

Effect: Some general ledger accounts required significant analysis and adjustment by client personnel at year end.

Recommendation: General ledger account balances should be regularly analyzed for their accuracy in relation to supporting documentation.

School Response: The School agrees with the finding. The School engaged an independent contractor in June 2008, who assisted the School with the year end adjustments and who will assist the School with the analysis and adjustment of account balances on a monthly basis during the year ending June 30, 2009.

Walden Green Montessori
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2008

Fiscal 2008 Finding No. 3: Monitoring Financial Statement Budget to Actual Comparisons

Criteria: Budget to actual variances should be monitored on a regular basis.

Condition: We noted that financial statement budget to actual comparisons were not prepared for management and the Board of Directors on a regular basis.

Cause: Management and staff appeared to have had limited time available to prepare budget to actual comparisons.

Effect: There were significant budget variances for the year ended June 30, 2008.

Recommendation: Financial statement budget to actual comparisons should be prepared monthly.

School Response: The School agrees with this finding. The School will implement this recommendation during the fiscal year ending June 30, 2009. To facilitate the implementation, the School is implementing new accounting/financial statement software and has contracted with an independent contractor to assist with monthly accounting and preparation of monthly financial statements.

Fiscal 2008 Finding No. 4: Preparation of Financial Projections

Criteria: Organizations should prepare multiple-year financial projections to forecast future operations.

Condition: The School incurred deficit operations for the year ended June 30, 2008 causing a General Fund fund deficit as of June 30, 2008. The School should prepare multiple-year financial projections to facilitate the development of strategic planning to address the General Fund fund deficit.

Cause: The School developed multiple-year financial projections several years ago in connection with the issuance of its construction bonds. However, such projections have not been updated.

Effect: Although the School developed and approved a budget for the year ending June 30, 2008, the School has not updated its multiple-year financial projections.

Recommendation: A three-year financial projection should be prepared.

School Response: The School agrees with this finding. During the year ending June 30, 2009, the School will consider the implementation of this finding.

Walden Green Montessori
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2008

Fiscal 2008 Finding No. 5: General Ledger Journal Entry Procedures

Criteria: General ledger journal entries should be reviewed, approved and maintained in a master file.

Condition: We noted that not all journal entries were reviewed, approved and maintained in a master file.

Cause: Management had not established such procedures.

Effect: Errors in the preparation and recording of journal entries could occur and not be detected.

Recommendation: General journal entries should be reviewed, approved and maintained in a master file.

School Response: The School agrees with this finding. The School will implement this recommendation during the year ending June 30, 2009.

Fiscal 2008 Finding No. 6: Financial Statement Preparation

Criteria: The preparation of the formal financial statements should have documented control procedures.

Condition: There are currently no internal controls related to the preparation and review of the formal year end financial statements.

Cause: The School is a small organization with limited resources and personnel have difficulty in establishing and maintaining effective internal controls related to the preparation and review of the formal financial statements.

Effect: There could be errors and omissions in the financial statements that go undetected.

Recommendation: The School should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles.

School Response: The School agrees with the finding.

Walden Green Montessori
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2008

Fiscal 2008 Finding No. 7: Segregation of Duties

Criteria: Duties should be adequately segregated so as to separate incompatible duties.

Condition: Certain employees have access to both physical assets and the related accounting records for all phases of a transaction.

Cause: The School is a small organization with limited opportunities for the segregation of duties.

Effect: Errors in processing transactions and financial reporting and the misappropriation of assets could go undetected.

Recommendation: Segregation of duties should be strengthened, including but not limited to, the cash receipts and cash disbursements cycles.

School Response: The School agrees with the finding. During the year ending June 30, 2009, the School will implement procedures to increase the segregation of duties.

Fiscal 2008 Finding No. 8: Accounts Payable Documentation Procedures

Criteria: Documentation supporting accounts payable transactions should be readily available for inspection.

Condition: We noted that certain accounts payable transactions did not have supporting documentation readily available in accounts payable files.

Cause: The School personnel did not comply with established school procedures regarding accounts payable documentation procedures.

Effect: Documentation supporting accounts payable transactions was not readily available upon request.

Recommendation: Accounts payable transactions should be supported by documentation maintained in accounts payable files.

School Response: The School agrees with the finding and will pursue compliance with its established accounts payable documentation procedures during the year ending June 30, 2009.

Walden Green Montessori
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2008

Fiscal 2008 Finding No. 9: Time Sheet Review and Approval Procedures

Criteria: The review and documented approval of employee time sheets should be performed prior to payroll processing.

Condition: We noted that time sheets are not regularly reviewed and approved by management.

Cause: The School's personnel did not comply with established School procedures regarding time sheet review and approval procedures.

Effect: Errors in the preparation of payrolls could have occurred and not been detected.

Recommendation: Employee time sheets should be reviewed and approved prior to payroll processing.

School Response: The School agrees with the finding and will pursue compliance with its established time sheet review and approval procedures during the year ending June 30, 2009.

Fiscal 2008 Finding No. 10: Formalization of Compensated Absence Policy

Criteria: A compensated absence policy should be approved by the Board of Directors.

Condition: The School does not have a formal compensated absence policy approved by the Board of Directors.

Cause: The School's management has not prepared a compensated absence policy document for review and approval by the Board of Directors.

Effect: A compensated absence policy formally approved by the Board of Directors would not be available upon request.

Recommendation: A compensated absence policy should be formalized and approved by the Board of Directors.

School Response: The School agrees with the finding and will consider adopting a compensated absence policy.

Walden Green Montessori
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2008

Fiscal 2008 Finding No. 11: Procedures for the Timely Remittance of Payroll Tax and Retirement Payments

Criteria: Payroll tax and retirement obligations should be paid timely.

Condition: We noted that retirement and certain payroll tax obligations were not paid timely.

Cause: The School has not established procedures to ensure the timely payment of payroll tax and retirement payments.

Effect: Certain payroll tax and retirement payments were not paid timely resulting in some late payment penalties.

Recommendation: Payroll tax and retirement obligations should be paid timely.

School Response: The School agrees with the finding.